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Full

SUPERPACK CORPORATION LIMITED

1967 ANNUAL REPORT



SUPERPACK CORPORATION LIMITED

Officers

I. Gould, *Chairman of the Board*
T. D. Richmond, *President*
G. Brina, *Vice-President*
M. E. Gould, *Vice-President—European Operations*
H. Vinnet, *Vice-President—Finance*
N. White, *Secretary*
G. Papernick, *Treasurer*

Directors

G. Brina
I. Gould
H. W. Marache Jr.
T. D. Richmond
N. White

Registrar and Transfer Agent

Guaranty Trust Company of Canada

Auditors

Perlmutter, Orenstein, Giddens,
Newman & Kofman

General Counsel

Macdonald & Macintosh

Head Office

254 Bartley Drive
Toronto 16, Ontario, Canada

Branch Offices

Montreal, *Canada*
Los Angeles, *California*
St. Louis, *Missouri*
Elizabeth, *New Jersey*
London, *England*
Nassau, *Bahamas*

ANNUAL REPORT 1967

Letter from the President

I am gratified to be able to report that the year ended November 30, 1967 showed both an increase in sales and, particularly, a substantial increase in profits to an amount of 76¢ per share.

I am especially pleased that all divisions of the Company are now operating profitably and efficiently. The financial problems of the last few years are being resolved as is indicated by the increase in working capital of \$636,798 for the year. This improvement was essentially due to the large increase in total cash provided by operations, being the total of net earnings, depreciation and amortization which equalled \$1,003,549 or \$2 per share, a rise of thirty percent over the previous year.

Your directors now consider that the Company is achieving its goals of consolidating the operations of its various divisions. The results for the first months of the current fiscal year continue to bear out this opinion. As a result, your Company is now ready to enter into new programmes to take advantage of its extensive production, marketing and management skills.

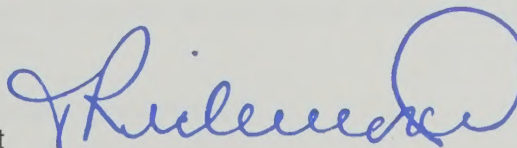
We are confident that the 1968 year will show still greater improvement in the Company's present operations as well as some preliminary results from these new programmes.

It should be noted that the income tax re-assessment referred to in the notes to the financial statements for the 1966 fiscal year was withdrawn and the Company has received a refund of the taxes paid.

Your directors wish to acknowledge with sincere appreciation the continued loyalty and productive effort of the employees of the various divisions.

For the Board of Directors

Theodore D. Richmond, President



Toronto, Canada, February 14, 1968

Financial Summary

Combined Financial Summary in Canadian Funds

Year end Nov. 30	1967	1966	1965	1964	1963	1962	1961	1960	1959	1958
Net Sales	\$10,303,022	\$9,929,648	\$10,413,190	\$9,110,775	\$8,536,326	\$7,060,064	\$4,400,000	\$3,691,000	\$2,939,000	\$2,509,000
Gross earnings	1,221,875	962,580	830,438	630,832	794,570	826,463	391,619	220,527	135,103	68,100
Depreciation and amortization	623,852	568,424	595,423	497,878	354,005	128,605	59,652	57,326	62,471	27,119
Interest	188,978	181,327	149,845	182,551	175,815	100,956	8,063	13,678	7,544	1,528
Income taxes	29,348	12,500	12,428	(71,118)	(35,432)	195,181	147,462	51,141	14,088	21,391
Net after taxes	379,697	200,329	72,742	21,521	300,182	401,721	176,442	98,382	51,000	18,062
Earnings per share*	0.76	0.40	0.15	0.04	0.60	0.80	0.35	0.19	0.10	0.03
Cash provided by operations, per share*	2.00	1.54	1.33	1.04	1.31	1.06	.47	.31	.23	.09

* Based on 501,005 shares presently outstanding

Auditors' Report

TO THE SHAREHOLDERS,
SUPERPACK CORPORATION LIMITED.

Gentlemen:

We have examined the accompanying consolidated balance sheet of Superpack Corporation Limited and subsidiary companies as at November 30, 1967 and the related consolidated statements of earnings, retained earnings and source and application of funds for the year ended on that date. Our examination of Superpack Corporation Limited and certain of the subsidiary companies included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

With respect to the financial statements of the other subsidiary companies we relied upon the reports of other independent auditors and our opinion in respect to those companies is based upon their reports.

In our opinion, the accompanying consolidated balance sheet, consolidated statements of earnings, retained earnings and source and application of funds present fairly the consolidated financial position of the companies as at November 30, 1967 and the consolidated results of their operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
January 31, 1968.

Respectfully submitted,
"PERLMUTTER, ORENSTEIN GIDDENS, NEWMAN & KOFMAN"
Chartered Accountants.

Earnings and Retained Earnings

SUPERPACK CORPORATION LIMITED AND SUBSIDIARY COMPANIES CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS FOR THE YEAR ENDED NOVEMBER 30, 1967 WITH 1966 COMPARISONS

EARNINGS	1967	1966
SALES	\$10,303,022	\$9,929,648
EARNINGS BEFORE PROVISION FOR UNDERNOTED ITEMS	\$ 1,221,875	\$ 962,580
Depreciation on fixed assets	470,001	423,446
Amortization of intangible assets	153,851	144,978
Interest on long-term debt	188,978	181,327
Income taxes	29,348	12,500
NET EARNINGS	<u>\$ 379,697</u>	<u>\$ 200,329</u>

RETAINED EARNINGS	1967	1966
BALANCE — December 1,	\$416,085	\$660,295
Add — Net earnings	379,697	200,329
— Gain on repurchase of debentures	17,790	11,156
	<u>\$813,572</u>	<u>\$871,780</u>
Less — Amortization of costs of organization and issue of capital stock and debentures	\$ 4,823	\$ 4,312
— Net costs of terminated ventures and asset dispositions	—	136,945
— Adjustments re prior years resulting from changes in accounting methods and sundry adjustments	2,958	314,438
	<u>\$ 7,781</u>	<u>\$455,695</u>
BALANCE — November 30,	<u>\$805,791</u>	<u>\$416,085</u>

Balance Sheet

SUPERPACK CORPORATION LIMITED AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEET AS AT NOVEMBER 30, 1967

WITH 1966 COMPARISONS

ASSETS	1967	1966
CURRENT ASSETS		
Cash	\$ 83,942	\$ 7,140
Accounts receivable (after allowance for doubtful accounts)	1,545,229	1,546,170
Inventories—at the lower of cost or market	1,006,578	1,195,800
Due from officers	18,362	25,509
Loans and notes receivable—current portion	6,276	26,476
Income taxes refundable	—	43,590
Prepaid expenses and sundry assets	48,961	56,464
	<u>\$2,709,348</u>	<u>\$2,901,149</u>
FIXED ASSETS (note 1)		
Vending units	\$2,027,428	\$1,930,050
Machinery, equipment, furniture and fixtures	1,833,126	1,751,433
Tools and dies	421,395	376,229
Vehicles	136,064	136,503
Leasehold improvements	238,051	236,990
	<u>\$4,656,064</u>	<u>\$4,431,205</u>
Less — Accumulated depreciation and amortization	<u>2,340,875</u>	<u>1,875,186</u>
	<u>\$2,315,189</u>	<u>\$2,556,019</u>
INVESTMENTS — at cost		
Investments—subsidiary companies	\$ 200	\$ 200
Mortgage and notes receivable—deferred portion	6,574	16,129
Sundry investments	20,035	20,035
	<u>\$ 26,809</u>	<u>\$ 36,364</u>
PATENT RIGHTS, LICENSING AGREEMENTS, RESTRICTIVE COVENANTS AND DEFERRED DEVELOPMENT COSTS (less amortization)	<u>\$1,167,193</u>	<u>\$1,329,805</u>
EXCESS OF COST OF SHARES OF SUBSIDIARIES OVER BOOK VALUE OF NET TANGIBLE ASSETS (less amortization)	<u>\$ 970,282</u>	<u>\$ 981,189</u>
COSTS OF ORGANIZATION AND ISSUE OF CAPITAL STOCK AND DEBENTURES (less amortization)	<u>\$ 58,131</u>	<u>\$ 71,474</u>
TOTAL ASSETS	<u><u>\$7,246,952</u></u>	<u><u>\$7,876,000</u></u>

Approved on behalf of the Board:

I. GOULD, Director

T. D. RICHMOND, Director

Toronto, Canada, January 31, 1968.



LIABILITIES	1967	1966
CURRENT LIABILITIES		
Bank indebtedness (secured) (note 2)	\$ 392,637	\$ 422,048
Finance company advances (secured) (note 2)	267,769	829,722
Accounts payable and accrued liabilities	1,206,440	1,365,042
Income taxes	41,856	37,272
Payroll deductions and sales tax	78,376	79,135
Current portion of non-current liabilities	329,931	412,389
	<u>\$2,317,009</u>	<u>\$3,145,608</u>
NON-CURRENT LIABILITIES		
Debentures (note 3)	\$2,265,320	\$2,274,500
Loans and notes	712,758	908,508
Less — Amount included in current liabilities	\$2,978,078	\$3,183,008
	<u>329,931</u>	<u>412,389</u>
	<u>\$2,648,147</u>	<u>\$2,770,619</u>
TOTAL LIABILITIES	<u>\$4,965,156</u>	<u>\$5,916,227</u>
DEFERRED INCOME	<u>\$ —</u>	<u>\$ 67,683</u>

SHAREHOLDERS' EQUITY

CAPITAL STOCK (note 4)		
Preference—Authorized, 50,000, 6%, cumulative shares, redeemable at \$20.50, par value \$20 each; issued and outstanding, nil	\$ —	\$ —
Common—Authorized, 1,000,000 shares without par value; issued and outstanding, 501,005 shares	1,476,005	1,476,005
	<u>\$1,476,005</u>	<u>\$1,476,005</u>
RETAINED EARNINGS	805,791	416,085
	<u>\$2,281,796</u>	<u>\$1,892,090</u>
	<u>\$7,246,952</u>	<u>\$7,876,000</u>

The consolidated financial statements should be read in conjunction with the auditors' report of even date.

Funds

SUPERPACK CORPORATION LIMITED AND SUBSIDIARY COMPANIES CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS FOR THE YEAR ENDED NOVEMBER 30, 1967 WITH 1966 COMPARISONS

SOURCE OF FUNDS	1967	1966
OPERATIONS		
Net earnings	\$ 379,697	\$ 200,329
Depreciation and amortization	623,852	568,424
	\$1,003,549	\$ 768,753
Less — Deferred income realized	10,544	2,056
	\$ 993,005	\$ 766,697
REALIZATION OF INVESTMENTS	\$ 9,555	\$ 62,531
INCREASE IN DEBENTURES AND LOANS PAYABLE	\$ 140,555	\$ 35,314
TOTAL FUNDS PROVIDED	\$1,143,115	\$ 864,542

APPLICATION OF FUNDS	1967	1966
PURCHASE OF FIXED ASSETS		
Vending units	\$ 97,378	\$ 240,797
Machinery, equipment, furniture and fixtures	81,693	229,839
Tools and dies	45,166	10,321
Other	6,653	97,366
	\$ 230,890	\$ 578,323
REDUCTION OF NON-CURRENT LIABILITIES		
Provision for current payments	\$ 329,931	\$ 412,389
Excess of provision for prior year over payments actually made	(84,694)	(33,543)
	\$ 245,237	\$ 378,846
ADJUSTMENTS RE PRIOR YEAR	\$ 30,190	\$ 108,418
EXCESS OF COST OF SHARES OF SUBSIDIARY ACQUIRED OVER BOOK VALUE	\$ —	\$ 93,982
RECLASSIFICATION OF ASSET FROM CURRENT TO FIXED	\$ —	\$ 51,012
MISCELLANEOUS APPLICATIONS	\$ —	\$ 4,231
TOTAL FUNDS APPLIED	\$ 506,317	\$1,214,812
INCREASE (DECREASE) IN WORKING CAPITAL	\$ 636,798	(\$ 350,270)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS NOVEMBER 30, 1967

1. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of all the wholly owned subsidiary companies except three which were inactive throughout the year ended November 30, 1967. The inclusion of the accounts of these subsidiaries would have no significant affect on the consolidated financial statements. The investment in these subsidiaries is recorded at nominal value.

Conversions from currencies other than Canadian have been made at applicable rates and in accordance with the Company's regular accounting practices.

Pursuant to an appraisal dated March 19, 1962 by Cooper Appraisals Limited of the fixed assets of Nortex Products Company, a division of the Company, \$335,574 of the excess of the cost of the shares of the subsidiaries from whom these assets were purchased, over the underlying book value of their net tangible assets, has been included as fixed assets. The balance of the excess of the cost of the shares of these subsidiaries and the excess of the cost of the shares of other subsidiaries over the underlying book value of their net tangible assets, are recorded as "Excess of cost of shares of subsidiaries over book value of net tangible assets".

2. ASSETS PLEDGED

Accounts receivable in the amount of \$1,636,000, inventory in the amount of \$469,000 and equipment costing \$131,000 are pledged as collateral for notes and loans payable of \$557,000.

3. DEBENTURES

The debentures issued by the Company mature on March 31, 1972 and are subject to the provisions of a Trust Indenture dated March 31, 1962, which provides, among other things, that the debentures are:

- (a) Secured by a floating charge on the assets of the Company and its subsidiaries.
- (b) Redeemable under certain conditions from time to time at a premium varying from 2½% to nil.
- (c) Convertible under certain conditions at the holder's option from time to time at bases varying from one share per each \$17.50 principal amount to one share per each \$22.50 principal amount. There are 123,800 common shares without par value reserved for these conversions.
- (d) To be partially retired out of the proceeds of the sinking fund to which the Company covenants to contribute \$78,000 per year.

During the year, a subsidiary of the Company issued \$91,500 (U.S.) five year 10% unsecured income debenture bonds providing for a minimum annual redemption of not less than 20% of the principal indebtedness.

4. CAPITAL STOCK

Of the authorized and unissued common shares, 123,800 are reserved for possible conversion of the debentures (note 3) and 25,000 are reserved under an employee stock option plan. Pursuant to this plan, options at \$4.50 per share on 25,000 shares were granted, which options can be exercised within five years from September 21, 1964, subject to certain conditions and restrictions.

5. EARNINGS AND RETAINED EARNINGS

For income tax purposes, the Company claims capital cost allowances at rates in excess of the rates used for depreciation recorded in the accounts. To date this excess is \$77,739 after a reduction in the current year of \$11,315 being the amount by which depreciation recorded in the accounts exceeds capital cost allowances. However, since the Company has an accumulated loss carry-forward for tax purposes, there has been no reduction in income taxes payable as a result.

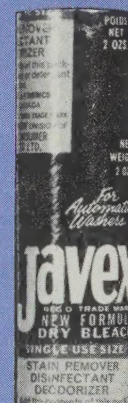
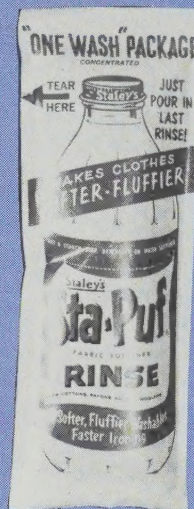
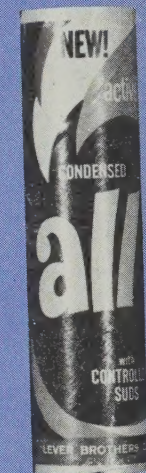
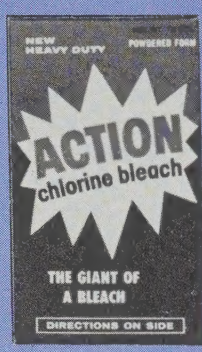
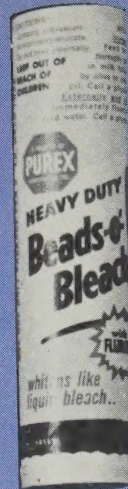
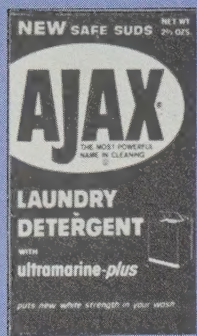
Patent rights, licensing agreements, deferred development and establishment costs are amortized on various bases, \$164,630 having been written off during the year (\$136,453 in 1966).

Executive officers' salaries aggregated \$277,129 during the year (\$237,705 in 1966). No directors' fees as such were paid during the year.

6. COMMITMENTS AND CONTINGENT LIABILITY

The Company and its subsidiaries as the lessees of leasehold properties, have contractual obligations for annual rental payments of approximately \$137,000 under these leases which have varying terms up to May 25, 1974. On January 10, 1968, Viewood Investments Limited, the lessor of the premises occupied by a former division of the Company initiated an action in the Supreme Court of Ontario against Superpack Corporation Limited, the original lessee of the premises.

Pursuant to the terms of the agreement dated April 4, 1966 whereby the Company sold the Gold Crest Products division of Superpack Corporation Limited, the Company was indemnified and saved harmless from all liability under the lease with Viewood Investments Limited. Accordingly, any liability arising out of the lawsuit would be borne by the purchaser and there would be no material adverse affect on the Company.



CYLINDRAMATIC VENDING

The growth of your company since 1961 has been the result of doing something better than anyone ever has before. For Superpack, this means producing both the machines and the specially designed packages they vend so that our units hold more product, virtually eliminate repair problems and require no investment on the part of the location owner. We call this development "cylindramatic vending."

Superpack vends the products it sells in spiral-wound, paperboard containers. Plastic bags are wedged into these cardboard tubes tightly enough so that they don't fall out, yet are easily removed by the housewife. When detergents are packaged in the cylinders, the ends are heat-sealed with thin, polyethylene film that protects against moisture and spillage. The tube is designed to contain a plastic bag of specific size (your company vends these in 10 cent and 25 cent sizes) or the exact amount of detergent needed for a perfect wash. A series of short, slanted arms, motivated by gravity, permits our vendors to hold up to six times more product than similar-sized units that contain traditional, rectangular packs heaped one on top of the other. Our grants of patents on this special form of packaging have effectively secured our position in "cylindramatic vending" in the future.

Superpack's engineers and designers had solved the three basic problems of cost, servicing and capacity that were plaguing the retailer of laundry supplies through coin-operated equipment. To the vending machine and packaging industries, the effect of this achievement has been indeed favourable.

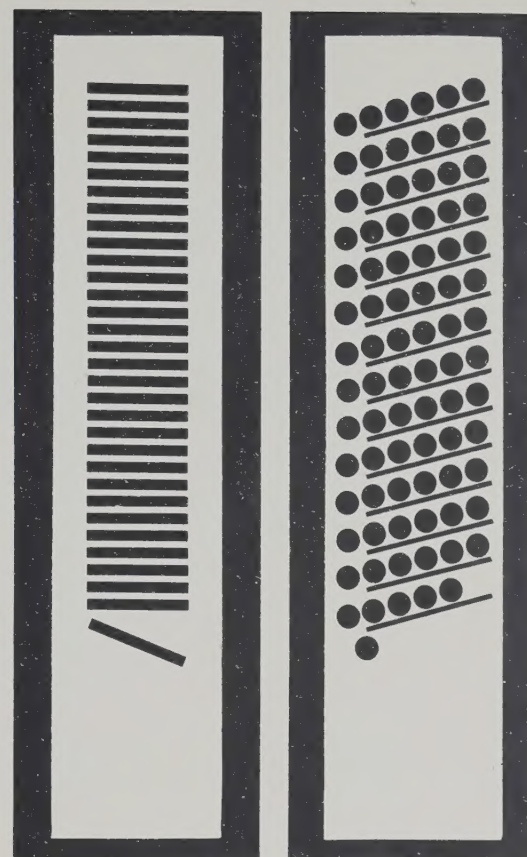
By holding more product, the Superpack "cylindramatic vendor" requires fewer visits from a service man for refills. These visits are one of the major costs to a distributor. In many cases, the installation of our unit has reduced the number of visits to one, where previously four had been necessary. For the location owner, a Superpack placement can mean as much as six times the amount of revenue he formerly derived from a machine that occupied the same amount of space.

Because the cylindrical packages are gravity-fed, (triggered by the insertion of a coin and dispensed by their own weight) the only moving part in the entire mechanism is the coin chute. As a result, repair problems are minimal. Again, this is a double blessing for both distributor and location owner. The units are virtually worry-free, and no selling time is lost.

Because your company is basically a packager, our business is dependent not on selling machines but on selling products. This is one of the differences between Superpack and those firms that may more properly be categorized as "vending machine companies." In the case of Superpack, each time we make an installation, we have "franchised" a "mechanical merchant" who sells our packages from that time forward, providing us with a measurable, geometric extension of sales and profits.

From its inception, your company has opened a whole new frontier of profits in coin-op laundry supplies to both the distributor and the location owner.

Through continual marketing surveys we have learned that our best results come from packaging products that are nationally known and advertised. We are continuing to conduct tests of "cylindramatic vending" with products outside of the laundry supply field. The impact of "cylindramatic vending" in these fields could equal or exceed the success we are already enjoying in coin-operated laundries.



OLD FASHIONED VENDING

Conventional vendors use only two dimensions: height and width

CYLINDRAMATIC VENDING

Utilizes height, width, and the third dimension: depth — increasing capacity up to six-and-one-half times



Two of the cylindramatic vending machines manufactured by Superpack Corporation Limited



SUPERPACK CORPORATION LIMITED

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ST. LOUIS, *Missouri* • ELIZABETH, *New Jersey* • LONDON, *England* • NASSAU, *Bahamas*